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**Real Industry's First Quarter 2016 Earnings Call**
**May 11, 2016**

**Operator:** Greetings and welcome to the Real Industry, Inc. Fiscal 2016 First Quarter Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host Mr. Kyle Ross, Chief Financial Officer. Thank you, Mr. Ross. You may begin.

**Mr. Kyle Ross:** Thank you, operator, and good morning all. Welcome to Real Industry's first quarter 2016 earnings conference call. I'm joined today by Craig Bouchard, our Chairman and Chief Executive Officer, and Terry Hogan, President of Real Alloy. After comments by Craig, Terry, and myself, we will take your questions. For anyone who is not able to listen to today's entire call, an archived version of this call will be available shortly. Please visit the Investor Relations section of our website to access the replay.

Before beginning our discussion, we want to make you aware that our prepared remarks and responses to questions may include forward-looking statements that involve risks and uncertainties and that actual results could differ materially from any forward-looking statement made by us. Information concerning factors that could cause actual results to differ from those in the forward-looking statements may be found in the company's SEC filings under the risk factors section.

In addition, our comments today refer to non-GAAP financial measures such as adjusted EBITDA. Reconciliations to the most directly comparable GAAP financial measures are provided in our earnings release and quarterly report filed with the SEC and posted on our website. We believe these non-GAAP measures provide useful information for evaluating our business performance. This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP.

Please be advised that the contents of this conference call contain time-sensitive information that is accurate only as of the day of this live broadcast on May 11th. Real Industry undertakes no obligations to revise or update any forward-looking statements to reflect events or circumstances after the date of this conference call except as required by law.

Now that we've covered the cautionary comments, I'll turn the call over to Craig.

**Mr. Craig Bouchard:** Kyle, thank you, and welcome to all of our equity and debt investors. We appreciate your participating with us in these calls, and I'm looking forward to taking questions upon our remarks.

And in this quarterly call, I've had enough of these comments that I'll mention it. Everybody wants to have as much information as possible, but when we go over an hour, people seem to get irritated because they feel obligated to continue listening even if they're out of their hour. So, we're gonna try to hold it to an hour, and that'll be a first, but we've had an awful lot to talk about up until now.

Let me begin. I'm gonna cover a bunch of topics and hopefully in rapid-fire form, but first, it's worth mentioning that the transition services agreement that we executed with Aleris, which was an 18-month agreement, with not batches of tasks to be done. When you do a carve-out of a large company out of an even larger company, it's a very significant and costly exercise and time consuming.

It's not batches. It's not scores of tasks. It's hundreds and hundreds of tasks that have to each be done correctly and in the time sequence. I've done it before, and it's a very, very tough project. Ours was completed on time and on budget in, I think, a fantastic way, meaning that we also accomplished many productivity improvements as we executed the hundreds of tasks in the transition services agreement.

And secondly, I'd like to thank Aleris. Their team there has been really helpful to us. We really appreciate Aleris, they remain a very significant customer of ours and a very important scrap provider to us as well. And it's a partnership that we look forward to continuing for many years.

When you do these carve-outs--I've done one about this big before this one, and you typically hire a lot of management consultants and IT consultants and spend a lot of money. We hired none of them. We did this project internally with our team and accomplished it in a great way. So, I want to congratulate the probably couple hundred employees that took time out of their day every day to get this done on time and on budget.

So, with that, it remained a volatile commodity market out there. First quarter improved for commodities a little bit, but we saw just this last week that commodities are still linked, for good reasons or bad reasons, to what the heck is happening in China with their economy and with the price of oil.

I don't worry too much about that stuff. I worry about what we can control, and that is things like operating as lean as we can and continually improving our business every day, allocating our capital correctly, having a sound strategy and a great management effort that's coordinated and allocating capital to the correct things. That's what we really spend our time on.

And this quarter, it turned out pretty good. I liked the Real Alloy performance for the quarter. Of course, it was better than last quarter, but it was also kind of similar to the first quarter of last year when the market was very strong, and so that's a good sign for us. I'm not gonna take any thunder from our cannons next quarter, but we're a little bit, about half way through the second quarter now.

And I like what I see for this quarter as well. Look, it's a crazy world out there. Anything can happen, but if things continue on their current track, we will finish the second quarter north of where we are in the first quarter. Again, that's a pretty good thing for us.

It's been a year and half since we completed this large acquisition, growing from $40 million of revenue to somewhere in the vicinity of $1.5 billion of revenue - you know, quite a year, year-and-half for us, but it's worth a little retrospective, and I always continue to do that.

We bought into a very good management team, a company that's the market leader in its segment in both North America and Europe. We also bought into the megatrend of aluminum replacing steel in the auto industry and the concept of light-weighting. We acquired a company with a competitive edge and one that allows us to enjoy a full view of the entire aluminum supply chain, something that I personally find very valuable.

Real Alloy attracted our attention because we felt it would be the most stable performer in a pretty cyclical industry - that's clear. And we paid a reasonable multiple at 6.25 times. A year and half later, how does all that look? My answer is good. I really like what we bought. I think we're incredibly positioned, and let me tell you a little bit why. The megatrend of aluminum replacing steel in auto is on track. In fact, it's ahead of track from where I actually thought it would be looking at it a year and half ago. All of the things we projected about the industry are coming true, and the analysts are soundly in the same place we are.

The growth rates and the pace of the transition away from the way cars used to be made to the way they're gonna be made is just very clear and now pretty easy to predict.

It is clear that we acquired the best management team in the industry. Terry and his incredible group of managers put up the numbers this past year; they outperformed the other aluminum companies. And we outperformed in the stock market and the bond market for 2015, significantly in the bond market, and that's because of good management.

Their performance also confirms that we bought the least volatile company in the space. I mean, that's an almost for sure looking out at what the other aluminum companies did in 2015 and even first quarter.

So the Real Alloy acquisition is what I thought it was gonna be, and we're happy with it. It provided us with scale and the opportunity to do some pretty large things. What's not to like? Well, other than the overly maligned Chinese, that's an easy one. If I were to pick out one thing, it would be that Real Alloy at this point isn't an NOL user. We knew that going in, of course. It will become one over time, so I'm really not too worried about that.

Yeah, we're anxious to burn NOL, but that will come with future transactions. And make no mistake, Real Alloy itself is going to grow into something special. The opportunities are clearly there, and we're seeing them.

Let me digress for just a moment. I don't want to bore anybody, but please excuse my direct nature. One other thing that's a disappointment for me about Q1 is that we lost a potential acquisition in Q1 and Q2 combined, something that we spent a lot of time on. Again, we lost this one because of price. That's the usual reason. And it was a large one, larger than Real Alloy. If consummated, it would have burned by our calculations roughly $500 million of our NOL over the next seven years.

I mention this not to dwell on the one that got away but to illustrate a couple of things because I like our investors understanding who we are, what we are and what we're doing. And first of those, irrespective of our NOL, we will not invest money unless it meets our operational and investment criteria, and that includes, as you all know at this point, a 20 percent IRR in our conservative projections, and we can get pretty conservative. We never rely on management projections.

And to say what I've said a bunch of times before, our NOL is icing on the cake. It's not the cake. We are disciplined about each and every investment we make inside or outside our company.

And the second point is, when you talk about NOL, quite frankly, I'm more worried about running out of NOL than I am about using it this year. There are many sellers out there, and many of them have tax problems that we can solve, but there are few buyers that have a tax advantage like we do. So it'll happen, and I like our position there.

Let me go back just for a moment to the aluminum business because the world is changing, and I spend a lot of time thinking about this, so I thought I'd share a few thoughts about it, and my thoughts are getting broader as I observe the trends and, in fact, daily learn about what's happening out in the industry.

We all know that consumption of aluminum is growing. It's not like the other commodities that have been falling in consumption. It's growing, and the demand for aluminum may exceed the supply on a global basis later this year or into next year. A whole bunch of people are calling for that I agree with them. Little bit dependent on the Chinese coming through with what they've said they'll do, but I think it's coming because of shutdowns and the growth of consumption.

But the topic itself is bigger than that, and I think it's worth spending just a second on it. We all know fuel economy standards for cars are increasing, not just here and in Europe but around the world, leading to the light-weighting of all materials inside the vehicles. We see this and talk about this and visit with our customers and can just see it happening.

But the megatrend is not just body in white. It's broader. The trend is light-weighting, and its importance goes beyond gas-burning automobiles. It's becoming pretty clear to me that there is another wave of technology coming that will make aluminum and other materials lighter, stronger and quieter. High-strength steels, carbon fiber, plastics, magnesium and other alloys will all participate.

Now, predicting the future isn't very easy, but we have to try. And here are few of the things that we look at. Aluminum is 1/3 the weight of steel and about 40 percent more rigid. We all know that. And we know that cars need to meet the CAFE standards in the U.S. and CO2 emissions standards in Europe. But there's also standards in places like China, Japan and many other places, and this means that cars must get lighter so they can meet the mileage requirements that have been legislated.

So we hear about body in white all the time. This term basically, for the rookies on the call, basically refers to sheet aluminum in doors, hoods, side panels, trunks of vehicles. And body in white represents about 1/3 of the weight of a typical car.

So, given the progress in ultra high-strength steels, the growth of steel in cars, which is an interesting topic--looks to me like it's going to be flat over the next decade. That's a nice way of saying zero growth. But, it's also better for the steel companies than a massive decline, which some people have been anticipating.

Aluminum in this same time period, through 2025, will grow by something in the vicinity of 17 percent per annum. Plastics going into the vehicles are going to grow by 5 percent. That's actually a significant number. And carbon fiber is gonna grow at something around 15 percent, but it's from a very small base, so it's not as material as that number might make you think.

And with all that, here's a few stats that matter to us. By 2025, there needs to be a 44 percent average reduction in the emissions per vehicle to meet U.S., European, Japanese and Chinese emission standards. That is a really big hurdle, and it's a legislated hurdle, one that has to be met. And by the way, I don't think you're gonna see any of the major governments backing off on the environmental side. The trend is in the other direction. It's not, in my view, gonna happen. These standards are gonna be met. And by the way, the progress so far is pretty good, demonstrates that it's possible to meet it.

The huge reduction in emissions must come from light-weighting and from power train improvements. Importantly, CO2 emissions from recycled aluminum are 92 percent lower than emissions from the creation of primary aluminum, and this has a lot to do with energy consumption of recycled aluminum being a fraction of what's required to make primary aluminum.

And then let's look at steel and aluminum. When those two things are mixed--and we don't get into this kind of stuff very often, but stamping the frames becomes extremely difficult. That's probably the reason the F-150 is virtually all aluminum. And when steel and aluminum are mixed, it's very, very difficult to recycle.

Also, when different grades of aluminum like the 5,000 and 6,000 series are mixed, it's also tough for the mills to recycle. And that's where we come in. We are the world leader in the independent recycling of contaminated scrap. So the future in just what we're doing today looks pretty darn good, and I'm talking about a 10-year future, not a six-month future. I'm talking about a real trend.

But here's the thing that's dawning more and more on me every day. The story doesn't stop with gas-burning cars, which by the way will eventually give way to a predominance of electric cars. I don't know how long, but it's gonna happen, so everybody ought to think about that. We're gonna be using more electricity and a lot less carbon. That is another unstoppable trend.

Oh, and planes will go in the same direction. Airplanes, lighter, stronger - so will boats, so will military vehicles and trains and even things like washing machines, construction materials and many other industries, products, etc. If we don't get this, we're missing the boat. There is a defined megatrend towards light-weighting and improvement of metals and materials.

And so as I think about bolt-ons for Real Alloy, people ask me this question often and why I mentioned these points, we have some incredible bolt-on opportunities to this asset, and we're gonna look at them. But it's not in buying the ma and pa competitors to what they do. If we've got 80 percent of Alcoa or some mills business in some market, if we're not there, somebody else is gonna come in and do the 20 percent, and we're not interested in those kinds of opportunities. We're interested in being significant in the complete trend of light-weighting as we go forward either at the parent or certainly with bolt-ons at Real Alloy.

And these are among the things that we are seriously working on. Real Alloy is gonna be a really good company as it grows up.

And with that, now I'm gonna turn you over to Terry Hogan. I'm going to come back and talk about M&A at the parent here towards the end, and I'm gonna put it over to the guy who I think is the best leader in the recycling industry, Terry Hogan.

**Mr. Terry Hogan:** Thanks, Craig. Appreciate the kind words.

Just to give everybody a bit of an update on the quarter, we had another solid quarter ended March 31. As we talked about at the end of the year, we had a good year last year from a safety front, and we've started out the year very well from an employee safety performance also in 2016.

From a volume standpoint, we did have a slow start to the year in January, although we saw pretty good pick-up consistently throughout the rest of the quarter with February and March moving back up so that overall volumes were up just slightly to where they were in the fourth quarter.

EBITDA, on the other hand, had moved up about $1.2 million compared to fourth quarter results. And as we have throughout the year, we've really maintained a very strong liquidity position, which is one of our key areas of focus.

As far as the marketplace goes, the automotive and aerospace demand in those markets has remained quite strong. The building and construction market seems to be experiencing a pretty normal spring pick-up with higher volumes, as you'd expect as we get into the building season in the North.

The beverage can market has remained relatively flat but this is an area where the low LME prices have had a negative impact on our overall tolling volumes, especially in North America. So we've seen lower toll volumes in the first quarter as a result of that. Those volumes have been replaced with higher volumes of buy/sell business, and obviously, from a performance standpoint, it does not hurt us.

The steel industry had a really tough first quarter but has shown some signs of improvement recently with higher utilization rates starting to show up.

And from a pricing standpoint, we saw a fair amount of volatility in the LME prices during the first quarter where they ranged from about $1,450 a ton to about $1,620 I think was near the high. The Midwest premium continues to be a story but much less of a story than it has been in the last year or so. I think it started out the year at just over 9 or 9.25 cents per pound and got to as low as 7.75 cents a pound.

As far as the automotive or the cast and foundry price range, it's been a little more stable than what we've seen with the LME where prices started the year at about 84.5 cents for A-380 in North America, got as high as 87 cents during the quarter, so some price movement up.

At the same time, we've seen scrap prices move up through the first quarter, and that's generally continued slightly as we've gotten into the second quarter. And from a scrap flow standpoint, we've seen very good consistency with the scrap generators on the industrial side of the market, more inconsistency on the post-consumer side.

And I think there certainly has been some impact on scrap flows as a result of the low ferrous and steel prices, lower volumes, less cars being shredded and so forth. So that has had an impact on flow from an overall standpoint.

So in order to offset some higher scrap prices and relatively flat sale prices on metal, this is where our productivity initiatives have really come in to pay off for us in the first quarter, where despite the market compression from a scrap spread standpoint, we actually saw an increase in our EBITDA per ton in the first quarter versus what we saw in the fourth. So a nice job by the operating team there in working through those opportunities to find ways to be able to offset the compression we've seen in the market.

We saw quarter-over-quarter improvement on the SG&A side. A lot of that comes from what Craig alluded to related to the transition service agreement where we reduced services significantly from Aleris at the end of the year, and so throughout the first quarter, lower volumes. And then as Craig mentioned, we're happy to say we've totally transitioned off of those services and are now free-standing on all fronts.

So I think that gives a general overview of how the quarter went. Overall, I'm quite pleased, and as we head into the second quarter, look for continued positive performance in the markets that we serve.

And with that, I'll turn it over to you, Kyle.

**Mr. Kyle Ross:** Thanks, Terry.

Turning to the quarterly financial report, as you've seen from the 10-Q and our earnings release, since our year-over-year comparisons aren't overly helpful given the 33 days of activity in 2015, we've attempted to provide a fair bit of disclosure on a sequential quarter basis. Starting next quarter, obviously, we'll have the first full quarter year-over-year comparisons to be making.

On a consolidated basis, Real Industry reported sales of $309 million, an operating loss of $2.1 million, net loss of just over $10 million, or a loss per share of 38 cents for the first quarter.

Revenue is derived almost entirely from the Real Alloy subsidiary, which generated, as you've already heard, segment adjusted EBITDA of $18.3 million during the quarter on just over 292,000 invoiced tons.

Compared to the fourth quarter, first quarter volumes were up 1 percent globally, which was in line with management's expectations and our sort of long-term historic seasonal patterns of the business, which we discussed the seasonality on the last call.

Revenues were higher sequentially by nearly $9 million, and Real Alloy's mix of tolling versus buy/sell was 52.5 percent and 47.5 percent of total volume, which was a change in mix of about 2.5 percentage points from the fourth quarter.

Adjusted EBITDA per ton at $63 was an improvement of 6 percent over the preceding quarter. Scrap spreads were tighter during the quarter as a result of the reduced scrap flow Terry just talked about, but a change in mix and other factors offset this dynamic, which we'll talk about at the segment level shortly.

We think EBITDA per ton is one of the better metrics to utilize in evaluating the business as it removes some of the margin volatility from the potential shift in mix between tolling and buy/sell.

CapEx in the first quarter was $5.3 million, and we are continuing to maintain our guidance at about $30 million for the year. As of March 31st, on a consolidated basis, Real Industry had $37 million in cash, $328 million in total debt and maintained nearly $99 million in liquidity, approximately $78 million of which was related to Real Alloy from its cash and available borrowings under its North American ABL and German factoring lines.

Turning to the segments, Real Alloy North America, or RANA, reported revenues of just over $200 million and adjusted EBITDA of $13.2 million on 196,000 tons invoiced. Revenue and adjusted

EBITDA were both higher than the preceding quarter while volumes were flat. Higher EBITDA per ton was the result of a higher percentage of buy/sell business and lower SG&A cost, as Terry just mentioned, primarily driven by the reductions in the cost of the TSA with Aleris, somewhat offset by slightly higher cash conversion cost.

The segments end-use exposure to automotive applications remained consistent with the fourth quarter at 54 percent of total volume. And our fair value asset step-up at RANA has been fully amortized, so there's no incremental cost this quarter associated with that.

Turning to Real Alloy Europe, or RAEU, reported revenues of $108 million and adjusted EBITDA of $5.1 million on nearly 96,000 tons invoiced. Adjusted EBITDA volume and adjusted EBITDA per ton were all slightly improved over the fourth quarter while revenue was slightly lower.

Although RAEU experienced tighter scrap spreads in the first quarter, they saw improved cash conversion costs and lower SG&A, which offset that margin pressure to deliver the higher EBITDA per ton. This segment's end-use exposure to automotive applications was also consistent with the preceding quarter at 72 percent of invoiced sales volume.

RAEU's fair value asset step-up resulted in $600,000 of non-cash amortization expense during the quarter. There's a little bit left on the fair value step-up that we'll see kind of burn through Q2 and Q3.

Additionally, during the first quarter, we identified that RAEU had under-reported depreciation expense in the fourth quarter of 2015, so we recorded a correction in the first quarter, which increased cost of goods sold and SG&A by $3.7 million and $100,000 respectively. So for those tracking our result via financial models, those expenses should have been recorded in the fourth quarter.

Outside of our segments, operating costs of corporate and other were slightly higher year over year but lower sequentially. $500,000 of the $3.3 million on expenses during the quarter were non-cash share-based compensation.

On the investor relations front, remember, our Annual Meeting is next week. We encourage everyone to return their proxies, and we look forward to seeing some of you in Cleveland. We're also scheduled to attend several upcoming conferences including B. Riley and Craig-Hallum during the last week of May, and CJS' conference in July.

With that, this completes the first quarter financial report, and I'll turn things back to Craig.

**Mr. Craig Bouchard:** Thank you, Kyle.

I'll just make a few comments on the parent company and the acquisition market and what we're seeing. It's improved this year sequentially through the first and second quarters. The debt market's in better shape than it was at the beginning of the year by a considerable amount.

Kyle and I have both spent time visiting--continuing to visit with equity and debt capital providers, sort of forming an informal club of those that would support us as we go forward to build the company and grow through acquisition. We've had a very strong and positive response to that. So at this point, I feel comfortable in telling our investors that we have very strong access to the market, almost then people encouraging us to bring them things.

One of the reasons that we've gotten that strong response, of course, is that our secured bond's still trading right around par, and have been the strongest performing industrial secured bond in the United States across the sectors through 2015 to today, and, you know, we've met our promises.

So I guess part one is that it's an attractive market for us. Rates are a little bit higher than last year, but access to capital is very strong for us.

Secondly, the opportunities remain strong. We are seeing things from the large banks and the large investment houses that are clearly more interesting for us and targeted to us than we were seeing, for instance, a year ago. All of the major houses know exactly what we're looking for and can show us more quickly now and more efficiently things that could be of interest to us.

We continue to manage to a short list of five opportunities, generally where we're working actively on two and looking at another three. When one goes away because it fails for whatever reason, we replace it with something else in the queue. We tend not to look at all at more than that, and we'll actively, in other words, be spending a lot of time and effort working, running models on two at a time.

We do have two that we're looking at right now – one's public and one's private. That's not unusual, either. And both, I think, are opportunities that could be good for us.

So my summary is that we're seeing things that are better now than we saw a year ago generally in terms of multiples and in terms of what we're looking for. Our dialogue is active, and our discipline never fails. We know what we want, we know the value we're prepared to pay. And when it's--there's any confusion in any of that, then we're off to our next opportunity. But this market right now has become a buyer's market. It's not a seller's market. And I'm pretty confident that our next one will be something that our investors appreciate.

And with that, I think we could take a few questions.

## Q&A Session

**Operator:** {prompts} Our first question comes from the line of Josh Nichols of B. Riley Financial. Please proceed with your question.

**Mr. Josh Nichols:** Yeah, hi, guys. I noticed that you mentioned that you're pretty optimistic, it seems like, on Q2 and 2016 in general. And I was just wondering, are you seeing something in the markets that's making you optimistic, or is it more optimism because of the continued improvements of the Real Alloy business as it is on the operational improvement front?

**Mr. Craig Bouchard:** Well, maybe a couple of us could take a shot, but I'll jump in first. I think we're really happy with the situation at Real Alloy. We've got the entire full-view of the aluminum supply chain because of our ownership and our leadership position there, and that is just going to simply be a long-term healthy market.

So, you know, our first one is a good one, and we'll continue to be happy about that, but never completely satisfied, meaning that we'll continue to improve the company and look for bolt-on acquisitions and ways to grow it both organically and through acquisition.

When we look at the greater opportunities for us, you know, there are a lot of companies out there that have tax problems that can be solved by our NOL and a lot of very interesting companies out there that are well managed with a sustainable competitive advantage. It's just gonna stay like that. It's not gonna not be that. So our key is to hold our discipline and really focus on what is best for us sequentially, and that's what we're doing. So, we like both situations. We like them both.

**Mr. Josh Nichols:** And I know you guys are trying to keep it to an hour, so are limited to one follow-up question is, just looking at scrap spreads and I guess really the flow of scrap into the yards, it is traditionally lower in the colder winter months, but are you seeing any up-tick in availability now that it's warming up a little bit?

**Mr. Craig Bouchard:** Terry will take that one.

**Mr. Terry Hogan:** Yes, sure. As you say, the flows are typically quite slow throughout the winter, and they do pick up. I would say that, this year, there's been a slower--we didn't have as difficult a winter and certainly not in the Northeast, anyways. And so, there was not as big a fall-off in volumes, nor has there been as big a pick-up. Prices have been a little bit all over as we talked about the LME moving around, and so I think that is having some impact on post-consumer flow.

We view the steel market becoming stronger as a positive as far as making more metal units available on the scrap side. So we have seen some pick-up, but I would say that, right now, it's not as robust or significant a pick-up as we've historically seen by, you know, early May.

**Mr. Josh Nichols:** Thank you.

**Mr. Craig Bouchard:** Thanks.

**Operator:** Our next question comes from the line of Steve Dyer of Craig-Hallum. Please proceed with your question.

**Mr. Steve Dyer:** Good morning, guys.

**Mr. Craig Bouchard:** Good morning.

**Mr. Steve Dyer:** I guess I'll start on the acquisition front. Just kind of given the movements in the last year and some of the dislocations in some industries, are you looking at any different industries in terms of acquisitions, or do you kind of still have those five or six kind of key umbrellas that you're looking under?

**Mr. Craig Bouchard:** This is--and by the way, Steve, it's good to talk with you. This is one of the most difficult and intriguing questions that we have to field because there's two directions at the parent company, not at Real Alloy, but at the parent company that we can go. This has been the case since day one and remains the case.

We can go the route of building a diversified set of assets that have consistent profitability burning NOL each quarter and a lower volatility through the business cycle because of that, and that's an attractive thought, of course, because of our NOL. And then there are opportunities-- and those, by the way, could be across lots of sectors or across the mainstream that we've sort of looked at and get most of our deals sent to us in, which are the customer-driven sectors of transportation, food, water and energy, right?

And then--so, maybe you call that, you know, two different things. And the third one is to really, really focus in on things in and around the metal space where there's some synergy with Real Alloy, etc. That would be a third option for us. And at this point, because we've only made one major acquisition, that optionality is still available to us. And we sort of think that way—maintain the option as long as we can until we're very happy with where we're headed and then get a little bit more focused as we go forth with the second, third, fourth acquisitions.

At this time, I would say that we--the things that we see nearly all of--not completely. We'll see a few odd ones here and there that are attractive for NOL reasons--but are in the industrial space, most of them with a metals component to it. And the reason is that, you know, we have some pretty good experience in metals in our company, and we know all the bankers and brokers and investment bankers in those fields. And so, they tend to know us, like us and send us things.

In the end, this is a team-driven effort. We have a fantastic team of business people inside our company and analytical people supporting them, looking at transactions and modeling. And we're gonna do what's best for the maximization of our share price. It's what we do, right?

And so, we'll look at different things. If there's a very attractive NOL play that goes along with a pretty good business opportunity, we'll look at it. But, generally, we stick to our knitting. We want well managed companies, competitive, sustainable competitive advantage and with the opportunity over time to burn NOL and for us to manage risk through the business cycle. These are the things we focus on. And if we allocate capital correctly to those kinds of crown jewel assets, we know we're gonna have a good result.

So, right now, we're still looking at different things. For the audience, if you have a wonderful opportunity, you may feel free to send it to us. We have a real process to handle such things, of course. But our--we're seeing similar things, given our backgrounds, as we speak.

**Mr. Steve Dyer:** Got it. That's helpful. And then if I could just one more drill-down on the Real Industry or the Real Alloy business, how much is left, and I know you'll tell me that it's a never-ending process, but how much is sort of left in the Six Sigma? I know you had kind of laid out some plans for improvements there. What--you know, maybe what inning are we in, or any color there would be great.

**Mr. Craig Bouchard:** Well, Terry is gonna give you a different answer than me, so I'm gonna start, and then he can give you his because he's on the daily firing line. In my view, we're in the second inning. The first inning was 2015. 2016 is the second inning because it's a never-ending process. But, with that, Terry, why don't you comment on the objectives that you guys have and have been given for the company this year and how you see it?

**Mr. Terry Hogan:** Yeah, Steve, I think there is--Craig's right. It's early in the game, and certainly as you get into this and continue to look at things, you realize, sometimes to your own dismay, how many opportunities there continue to be as you look in all the different areas, be it, you know, commercial areas, operational areas, SG&A areas.

And so, you know, we are early phase on that. We've got a more robust team than we had when we were acquired by, you know, Real Industry. And so, I think as we continue to work through that process, we continue to, you know, uncover different opportunities. Obviously, some are bigger than others, but a lot of it is also process improvement that will just continue to pay off in many ways on a going forward basis.

So, difficult to quantify, but I think it's early phase, and you should expect to see continuing productivity initiatives with success going forward, which frankly are necessary to offset, inflation and some of the headwinds that we're seeing today, for instance, and that we'll continue to see as the market comes and goes.

**Mr. Craig Bouchard:** Well, we have an item that is fondly referred to in our company as the CEO challenge. Terry, why don't you let the crowd know what that number is for 2016?

**Mr. Terry Hogan:** Yeah, I think, you know, it was announced last quarter, but--or the beginning of the year, but $17 million is our target for the year, up from 13.4 last year. And so, it's pretty aggressive. And does it continue to be that? Maybe. We'll see where it goes.

**Mr. Craig Bouchard:** I don't want anybody fainting out there in our facility, so we'll comment on 2017 down the road.

**Mr. Steve Dyer:** Got it, okay. Thanks. Best of luck, guys.

**Mr. Craig Bouchard:** Thank you.

**Operator:** Our next question comes from the line of Daniel Moore of CJS Securities. Please proceed with your question.

**Mr. Daniel Moore:** Good morning, and thanks for taking questions.

**Mr. Craig Bouchard:** Sure.

**Mr. Daniel Moore:** I just wanted to drill down in the slight change of mix in the tolling business versus buy/sell, what are the factors that sort of drove that, and do you expect that trend to continue for the next few quarters?

**Mr. Terry Hogan:** Yeah, I mean, the biggest change that really is driving that is the relationship between the LME pricing and scrap pricing today. And so, as far as weather, I would expect it to continue. I think that's hard to say.

If you look at--we've got, in particular, one facility but it impacts us in a couple of different sites also where we process significant amounts of used beverage can going back into the canned sheet market for, you know, 20 years and have run nothing but used beverage cans in particular equipment to service that market.

And with the LME the way it was especially at the beginning of the year, it got to a point where between prime aluminum and alloying agents, it became more economical based on where those prices were in relation to scrap, used beverage can scrap prices that it was cheaper for them to make that material out of prime, which is a relatively pure alloy is what's going into making can sheets.

So, it's got very low tolerances on a number of things, and so it's pretty much a closed-loop cycle where cans are going back into making other cans. So, it's hard to say if it'll continue. I can tell you that, in the last 20 years, it hasn't made sense consistently at any time during that period. But, certainly, at the beginning of the year when people have the ability to lock in prime prices and other component prices, I would expect it will continue through the rest of this year.

**Mr. Daniel Moore:** That's helpful, appreciate it. And, Craig, you mentioned financing markets are opening. Is the high-yield market specifically open to you? And maybe talk about any other--just drill down a little bit more in terms of your options for financing potential deals relative to maybe three or six months ago?

**Mr. Craig Bouchard:** Yeah, I don't know if it's changed a lot in the three to six months because it's been open to us throughout. The high-yield market rates are better, and it's certainly open. It's not my favorite place to go. And as we've gone out and talked with people--I mean, if you take the chain--most people on the phone will know this chain but I'll say it, anyway. There's the lowest in price, which is the ABL market. We always look there first. Those rates are very low. And then there are senior institutional and bank term loans, and then there's mezzanine, and there's high-yield, and then you go up from there, high-yield and mezzanine to the preferred stock market, typically, where preferred stock has some really favorable benefits to it. But, if there's a lot of debt in between it and the common, then those rates are high on prefer the coupons.

And so, what we've looked at is, how do we do a blend of financing depending on what kind of asset we might be buying. There's different characteristics as how conducive are they to each of those instruments. But, we've spent a lot of time on preferred stock because, if we can limit the amount of debt we take on going forward and put preferred in its place, then you can get a pretty good coupon on preferred.

And we are in the positive place where we can issue a qualified preferred to, for instance, a mutual fund or an inc., which a qualified preferred is one in which the owner of it pays only 30 percent tax on the coupon and 70 percent of the coupon is tax free. And our NOL subsidizes that.

So, we've spent a lot of time on how we can limit the issuance of common stock to accomplish any transaction that we do, substitute preferred stock for it and for some components of the debt market. And that's really a big piece of our strategy. We will continue to look at doing rights offerings. We may or may not do a rights offering with any deal. But, the rights offering is, for us, the stapled rights offering, a preferred financing vehicle because it allows any investor of our common stock to remain undiluted through an acquisition by simply taking their rights, which will likely be at a discount of 20, 25 percent typically in the marketplace.

So, it's a chance to get an immediate improvement in the price of that instrument post-closing, which is of course what happened last time. And I would expect it to happen on other stapled rights offerings.

So, those are the main instruments out there. We've spent a lot of time on the preferred topic, and we have people very interested in looking at those things for us. And there are the good bluebloods out there, the big investors that do such things.

**Mr. Daniel Moore:** Very helpful. And I guess just lastly, cash flow from ops is down a little bit year over year. Just remind us of your outlook for cash for the remainder of 2016.

**Mr. Craig Bouchard:** Kyle, why don't you step in? I don't think we've given that guidance, have we, Kyle?

**Mr. Kyle Ross:** Yeah, no. Dan, we haven't given guidance yet this year, and I don't think we're in a position to do that yet on this call. I think, certainly, what you'll see in the first quarter of '16, you've got the seasonal build of working capital, and that's why Q1 shows a use of cash on the operating section.

**Mr. Daniel Moore:** Okay. Thank you again.

**Mr. Craig Bouchard:** Sure.

**Operator:** Our next question comes from the line of Anup Goswami of Odeon Capital. Please proceed with your question.

**Mr. Anup Goswami:** Thank you. So, if the overall market for aluminum is increasing 17 percent, could you talk about how that translates into the overall long-term demand for recycled aluminum, and then how that kind of connects with the relatively flat volumes we're seeing in terms of Real Alloy's tonnage invoiced? Could you talk about that a little bit?

**Mr. Craig Bouchard:** Sure, I'll share it with Terry. First, the 17 percent is the projected increase in the growth rate of aluminum going into body-in-white in autos, right? That's not the industrial--the industry consumption is growing at, on a global basis, about 5 percent right now and about 4 percent in the United States.

But, over to the topic of how we look at that going forward--and this is a really good question, Anup, because there's--I don't know--across various aluminum companies and what's happening in the market, it's a confusing time in this regard. Body-in-white and that trend has been stronger, of course, in Europe than it has been in the United States. The first really big program here is the F-150, and then there's lots now of small programs blossoming with people doing trunks, trunk lids, car doors, various pieces inside the car, etc.

So, in the United States, it's really just getting started. And so, we view body-in-white, that part of this whole trend as a long-term very favorable thing for our company. We've never viewed it as, oh, it's a, you know, waterfall for us this year because it's really just getting started in the United States. We do think that there's an obvious trend towards other big platforms, and they're being announced at a pretty good clip now, that will head towards being aluminum in the vehicles in the United States.

But we view it as a 10-year trend and always have. Remember that we supply molten and solid aluminum to all kinds of customers, but the two biggest sets are the aluminum mills themselves and the automakers themselves or their tier-1 suppliers. And our aluminum primarily today goes into things like engines and power trains.

Now, with respect to volumes, we've been fairly stable in our volume the last three years. We think that that number will go up, but it's something that I always caution people to analyze correctly. Our company is about maximizing profit, EBITDA being one measure of that, and efficiency.

We could have a significant increase in our volume next quarter or certainly for this year if we chose to simply by lowering our price. We would have a flood of volume if we lowered our price, and we would have smaller operating margins, smaller EBITDA margins, and in my opinion, a less attractive business. We're about improving the margins of our company and maximizing profit per ton.

With that, Terry, you must get this question more than me, so I'm gonna let you tell them anywhere where I'm off or any other perspectives that you would have on it.

**Mr. Terry Hogan:** Yeah, maybe just to expand a little bit, as the body-in-white comes into play, you know, Alcoa's got their lines up now in Iowa and Tennessee is ramping up, Novelis has had their two lines in Oswego, and they just added a third line. And then there's obviously expansions already announced in a number of different fronts.

But, most of all of that metal initially is starting out coming from prime being alloyed and then going out into the industrial stream. And as both our Alcoa and Novelis have talked a lot about close looping the systems, to the extent that alloys are being segregated, that metal is coming back into their system. But, most everything that we've talked about now is all built off of the--certainly the mills that I just mentioned were built off of the growth of the F-150 and then the future plans of the automakers.

So, I think the way to think about this or the way we think about it is that, as those volumes continue to ramp up, and as the other chop lines come on throughout the industry, and as more scrap finds its way back into that stream, there'll be more metal made from that scrap. And as Craig alluded to earlier, as you get into situations where 5,000 series, which is the outer skin material, is attached or commingled with--excuse me--the 6,000 is the outer skin, 5,000 is the inner support and stuff that's not typically seen, as those alloys get commingled and mixed, that's where more and more opportunities come into play for us to play a role. And I think that's when you start to see the volumes increase. So, I think it's going to be a ramp-up over time as those opportunities present themselves.

**Mr. Craig Bouchard:** Yeah. So I'm going to encourage us to quickly take several more calls because we've got seven minutes left and a whole bunch of people in line. So, if we could, let's try to hit as many of the additional callers as possible.

**Operator:** Our next question comes from the line of Ken Silver of KLS Diversified. Please proceed with your question.

**Mr. Ken Silver:** Hi, guys. Thanks for the time. I'll be quick. Working capital, you started talking about it. How should we think about working capital for the last nine months of the year? Do you think it'll be a source or a use, and maybe quantify it if you can?

**Mr. Kyle Ross:** Ken, I think we're gonna have to follow back up with you on that one. That's not something we've put out publicly yet, and I don't think we're prepared at this stage to do that right now.

**Mr. Ken Silver:** Okay, all right. And then just, I know you talked about scrap spreads a little bit. I just want to make sure I understand. Do you think scrap spreads in the second quarter are gonna be similar to the first or maybe a little better?

**Mr. Craig Bouchard:** Terry, you want to take that one?

**Mr. Terry Hogan:** Yeah, sure. I think second quarter is likely to be flat, I would say, or pretty close to flat compared to the first quarter. And again, we're seeing some compression on the straight spread side of it and continue to work on the productivity initiatives to close some of that gap. That's our view of things as we sit here today.

**Mr. Ken Silver:** Okay, all right. Thanks, guys. Appreciate it.

**Operator:** Our next question comes from the line of Jason Doyle of Lawndale Capital Management. Please proceed with your question.

**Mr. Jason Doyle:** Hi, guys. Thanks for taking my call. Just real quick, you talked about growth in Real Alloy through either acquisition or organic growth. Can you talk about organic growth, kind of what you're doing towards that and whether it's really positioning yourself to take advantage of the kind of economic trends and the trends in the aluminum business, or whether if there wasn't kind of this megatrend in the automobile industry and others, what you guys would do to grow the business organically?

**Mr. Craig Bouchard:** Yeah, I'll start, and I'll have Terry quickly follow. It's a couple of different things. The way we manage our company is that Terry and his team have a list, and it's a fairly long list of growth CapEx projects that they want to have looked at, are interested in doing that meet our 20 percent IRR hurdle. And those could be expanded spending on preprocessing equipment at various plants around the world. It could be an expansion into a different geographic area where we're not serving customers today. It could be all kinds of things. And what we do is we look at that on a quarterly basis and decide how much money we want to spend and what the payback and how quick it will come back and certainly exceeding our targets.

So, that would be sort of one step into it. And that's an ongoing--we have a weekly discussion with managers and go through such things, as well. There's a lot of our managers on that phone call each week from six countries.

And then there are some of the other things that I talked about. Light-weighting is an even broader concept. There are a number of acquisitions of small- to medium-size companies in and around this space that would have some synergy with the Real Alloy business that do different things. And many of those are service type companies that have higher margins, less CapEx, are paying taxes, etc., etc.

Now, that's the acquisition as opposed to organic, but when we spend money, we compare our internal organic opportunities with those external opportunities and, you know, and make our plans. Terry, what would you add to that?

**Mr. Terry Hogan:** Yeah, I think from an organic growth standpoint, I mean, the key for us has been and I think will continue to be to grow with our customers. And being really the only single company servicing both North America and Europe on the large scale, you know, we've got the opportunity to provide services where our customers need them.

So, as they, for instance, would expand into other areas, I think that creates opportunities for us. You know, the automakers right now are investing a lot of money in a lot of places. And so, those would be areas just off the top of my head that come to mind from an organic growth standpoint.

**Mr. Jason Doyle:** All right, great. Thanks. I'll hop off, and hopefully, they can get--/

**Mr. Craig Bouchard:** --Thank you.

**Operator:** Our next question comes from the line of Ken Grossman of--a private investor. Please proceed with your question.

**Mr. Ken Grossman:** Thank you. Terry, I've noticed in going over the historical results that the last quarter in Europe seemed to have been relatively weak. I think your gross profit margin is below 2 percent, and the relationship between EBITDA domestically in Europe had widened. Is there something going on in Europe that you could share with us? And also, my understanding is that our capacity was almost sold out or was sold out in Europe historically and in going forward. So, I'm curious why we would have some weakness there?

**Mr. Kyle Ross:** Hey, Ken, it's Kyle. I'll take the first one if you want in terms of just gross margin, and then I'll let Terry comment on the overall business dynamic. But, I think what you're seeing in Q1 in Europe in particular, the lower margin is the result of the depreciation correction that we did from the fourth quarter. So, I would caution you not to just look at the table that you're seeing but check the MDNA and--yeah, we're--that was in Europe, that all hit in Europe.

**Mr. Ken Grossman:** Thank you.

**Mr. Craig Bouchard:** Yeah, to be fair to the guys in Germany, they're leading the way inside our company right now. Germany is well ahead of plan for the year and really the sort of the brightest piece of our pretty good business thus far this year. Some years, it's the U.S. Some years, it's Europe. Right now, Germany's leading the way for us. Our business there is gangbusters.

**Mr. Ken Grossman:** Right. All right. One other question with respect to the completion of the transition services contract and the Six Sigma Lean manufacturing efforts--I guess this doesn't apply so much to manufacturing, but are you planning or foreseeing some of the Six Sigma improvements coming out of controlling your own infrastructure as a result of the Aleris overlay not being part of the company any longer, or is this all manufacturing and organic?

**Mr. Terry Hogan:** No, it certainly spills over to non-manufacturing aspects of it. And we've used a Lean approach throughout the transition off of the transition service agreement. So, I think, at this point, we're happy to have a lot of the heavy lifting associated with that behind us. And so, now we're refocusing our resources and our energy on how do we basically fortify the process because we transitioned what we had to be freestanding, and now we've got the ability to go in and upgrade it and improve it and increase the overall performance of our systems throughout, Ken.

**Mr. Ken Grossman:** What percentage of the--?

**Mr. Craig Bouchard:** --Hey, Ken, I hate to be disciplined with you, just like I am with my managers, but two questions is your limit. We're gonna take one more question because we are right now at 12:01.

**Mr. Ken Grossman:** Okay, Craig. Thanks.

**Mr. Craig Bouchard:** Thank you.

**Operator:** Our next question comes from the line of Dan Orlow of GNS. Please proceed with your question, Dan.

**Mr. Dan Orlow:** Hi, last question, so I'll try to do it in one part. But, on the 20 percent IRR return, is there a way to sort of think about what pieces of the business now that you've moved the corporate architecture to more of a centralized perspective, what percentage of that would be driven by the re-rating? Obviously, your debt would be re-rated or the alternative to prefer, the alternative to finding something with higher top-line growth or something that you think you could have process improvements so you would have a more sustainable margin going forward. Is there a way to think about what the drivers are in that calculation so we have a better sense of what's a good strategic fit for you financially? Thanks.

**Mr. Craig Bouchard:** Well, I could start by saying that our 20 percent IRR target is the target for all cash that we spend on things. So, if there is a project being proposed, if there is, other than maintenance CapEx where it's obviously important that we maintain and keep our equipment in first-rate condition, but any investment for growth inside the company or outside needs to meet that IRR target.

That's how we discipline ourselves. It's how we talk to each other. It's how we do our analysis. And that includes, by the way, the use of the NOL if it's an important part of whatever is being discussed. So, if we're buying a company, they're a taxpayer, we're saving those taxes, that goes into that calculation.

The contrary to that would be we buy a company let's say in Europe where we don't have--the NOL doesn't apply to profits earned in Europe, so there'd be no NOL component to that IRR calculation. Everything needs to hit the 20 percent to get serious consideration in the company.

Well, with respect to getting a better yield on the price of our debt, if it's existing debt today, it really doesn't enter into the capital allocation discussion. We're gonna, of course, always try to achieve savings, but we don't focus on those things like we do on spending fresh capital. You know, there's only so many minutes in the day.

But, as we look at an acquisition in the United States, as an example, the cost of debt factors into this considerably. So, if we're borrowing at LIBOR plus 275 and we're doing an ABL borrowing to fund an acquisition, that's obviously a contributor, a positive contributor to the situation versus paying 9 or 10 percent on a high-yield note.

And so, you can bet your bottom dollar that we are looking at every one of these costs whenever we're looking at spending money, either on a capital expansion, on a new project or on an acquisition.

I don't know if that answered your question completely, Dan, but that's my best shot at it.

**Mr. Dan Orlow:** Well, also, you know, how do you calculate when you look at some of these opportunities the quality of management and what the organic opportunity is when you go to look through the financial restrictions?

**Mr. Craig Bouchard:** Well, so that would come into play when we look at an acquisition, we will project out for five years its revenues, expenses, its balance sheet, its working capital requirements, what--the cost of debt, its growth possibilities. First, we'll have the managers of the target do that for us, and then we will go into caucus with our own modeling effort, which is very extensive, and we will stress very significantly the assumptions being made by managers when they make that presentation to us. And then we begin the cutting process.

So, our scenario--it has never come out to be what a management team we're acquiring has told us, not even at Real Alloy. Our scenarios are always more conservative.

And then we actually have a process in our company that is somewhat unique in the world of investing, in my opinion, because we will look at all the major assumptions and then run Monte Carlo simulations, as many as 10,000 of them, to look at the probabilities of us not achieving 20 percent based on bad things happening in the future. It's a very sophisticated process.

And so, when you look at the management component, we make an evaluation of our opinion of their ability to meet the assumptions that they've got worked into their models. If they're a great management team, meaning they always make money, because that's my definition of great, then we give them more credit in our downside in our conservative cases. If they go through the cycle, do well in some years and less well when the recessions hit, then we'll cut them even more in our assumptions. And that's kind of how it works inside.

Our modeling effort is as good as any significant institution on Wall Street. Firms like Goldman Sachs, Deutsche Bank, Credit Suisse, we work with these firms on modeling and transactions they bring to us, and of course many others. They usually rely on us to model even as much or more than their own modeling efforts because they have a high level of respect for us. So--but, that's how it works.

**Mr. Dan Orlow:** Thank you.

**Mr. Craig Bouchard:** Thank you.

With that, I think we're, I'm sorry, a few minutes over our deadline, but they're good questions. And I would like to thank all of our investors, equity and debt. We are doing our absolute best. Our work ethic is great. Our ideas are good. I'm impressed with our managers. And I think the future of our company is extremely strong. So, thank you, and we look forward to the next one.

**Operator:** This concludes today's conference. Thank you for your participation. You may disconnect your lines at this time.